

# EXHIBIT D

# **Stambaugh's Air Service, Inc. and Affiliates (S Corporations)**

## **Report on Combined Financial Statements and Supplemental Material Year Ended December 31, 1997**

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BDO Seidman, LLP  
Accountants and Consultants

# **Stambaugh's Air Service, Inc. and Affiliates (S Corporations)**

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## Independent Auditors' Report

Stambaugh's Air Service, Inc.  
Highspire, Pennsylvania

We have audited the accompanying combined balance sheet of Stambaugh's Air Service, Inc. and affiliates (S Corporations), as of December 31, 1997, and the related combined statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Stambaugh's Air Service, Inc. and affiliates, as of December 31, 1997, and the combined results of their operations and their combined cash flows for the year then ended, in conformity with generally accepted accounting principles.

*BDO Seidman, LLP*

February 26, 1998

<i>December 31,</i>	<i>1997</i>
<b>Assets (Pledged) (Note 6)</b>	
<b>Current assets</b>	
Accounts receivable, net of allowance for doubtful accounts of \$10,217 (Note 8)	\$ 1,512,919
Inventory	552,173
Prepaid expenses and other current assets (Note 4)	251,773
<b>Total current assets</b>	<b>2,316,865</b>
<b>Property and equipment</b>	
Land and buildings	429,428
Equipment and vehicles	3,318,321
Leasehold improvements	467,818
	4,215,567
Less accumulated depreciation and amortization	(3,539,021)
<b>Net property and equipment</b>	<b>676,546</b>
<b>Other assets</b>	
Long-term note receivable, net of current maturities (Note 4)	195,796
Note receivable, stockholder (Note 5)	2,551,903
Security deposits	55,857
Investment in real estate	90,000
<b>Total other assets</b>	<b>2,893,556</b>
<b>Total assets</b>	<b>\$ 5,886,967</b>

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Balance Sheet

December 31,

1997

### Liabilities and Stockholders' Equity

#### Current liabilities

Cash overdraft	\$ 90,250
Notes payable, bank (Note 6)	884,970
Accounts payable and accrued expenses (Note 10)	1,299,763
Payroll and other taxes payable	68,714

<b>Total current liabilities</b>	<b>2,343,697</b>
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<b>Long-term accounts payable, net of current maturities (Note 10)</b>	<b>168,034</b>
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<b>Notes payable, bank (Note 6)</b>	<b>314,197</b>
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**Commitments and contingencies (Notes 7 and 10)**

#### Stockholders' equity

Common stock (Note 12)	12,600
Additional paid-in capital	3,296
Retained earnings	3,045,143

<b>Total stockholders' equity</b>	<b>3,061,039</b>
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<b>Total liabilities and stockholders' equity</b>	<b>\$ 5,886,967</b>
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*See accompanying notes to combined financial statements.*

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Statement of Income and Retained Earnings

<i>Year ended December 31,</i>	<i>1997</i>
Sales (Note 8)	\$ 13,771,649
Cost of sales	11,936,611
Gross profit	1,835,038
General and administrative expenses	1,978,718
(Loss) before other income (expense)	(143,680)
Other income (expense)	
Rental income (Note 10)	10,136
Interest income, net of interest expense of \$117,195	176,151
Total other income	186,287
Net income	42,607
Retained earnings, beginning of year	3,002,536
Retained earnings, end of year	\$ 3,045,143

*See accompanying notes to combined financial statements.*

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Statement of Cash Flows

<i>Year ended December 31,</i>	1997
<b>Cash flows from operating activities</b>	
Net income	\$ 42,607
Adjustments to reconcile net income to net cash (used in) operating activities	
Depreciation and amortization	149,553
(Increase) decrease in operating assets	
Accounts receivable	10,690
Inventory	(38,551)
Prepaid expenses	(11,122)
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	(325,425)
Payroll and other taxes payable	(4,533)
Long-term accounts payable	(75,814)
<b>Net cash (used in) operating activities</b>	<b>(252,595)</b>
<b>Cash flows from investing activities</b>	
Purchase of property and equipment	(196,801)
Long-term note receivable	(6,798)
Security deposits	(42,717)
<b>Net cash (used in) investing activities</b>	<b>(246,316)</b>
<b>Cash flows from financing activities</b>	
Borrowings on notes payable, bank	203,523
Proceeds from stockholder	181,127
<b>Net cash provided by financing activities</b>	<b>384,650</b>
<b>Net (decrease) in cash</b>	<b>(114,261)</b>
<b>Cash, beginning of year</b>	<b>24,011</b>
<b>Cash (overdraft), end of year</b>	<b>\$ (90,250)</b>
<b>Supplemental disclosure of cash flow information</b>	
Cash paid during the year for interest	\$ 92,040

*See accompanying notes to combined financial statements.*



## **Stambaugh's Air Service, Inc. and Affiliates (S Corporations)**

### **Notes to Combined Financial Statements**

**1. Description of  
Principal  
Business  
Activities and  
Principles of  
Combination**

The accompanying combined financial statements include the accounts of Stambaugh's Air Services, Inc. ("Stambaugh"), Stambaugh Aviation, Inc. and M.J.S. Equipment Corporation (collectively, the "Company"). Stambaugh's principal stockholder is the sole stockholder of Stambaugh Aviation, Inc. and M.J.S. Equipment Corporation. All significant intercompany transactions have been eliminated from the accompanying combined financial statements.

Stambaugh. And Stambaugh Aviation, Inc. provide aircraft overhaul and repair services in central Pennsylvania and southeast Georgia. M.J.S. Equipment Corporation provides aircraft fueling services, baggage and cargo handling services and other related airport services. M.J.S. Equipment Corporation also removes flashing from extruded plastic materials.

Substantially all activities performed by Stambaugh Aviation, Inc. are done pursuant to a subcontracting agreement with Stambaugh. All of the airport services performed by M.J.S. Equipment Corporation are done pursuant to a subcontracting agreement with Stambaugh.

**2. Summary of  
Significant  
Accounting  
Policies**

#### **Income Recognition**

Revenues from fixed-price and modified fixed-price construction contracts are recognized on the percentage of completion method, measured by the percentage of tasks performed (labor hours) to date to estimated total tasks for each contract. Management believes expended labor hours is the best available measure of progress on these contracts. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned, measured by the cost-to-cost method.

## **Stambaugh's Air Service, Inc. and Affiliates (S Corporations)**

### **Notes to Combined Financial Statements**

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation. General and administrative costs are charged to expense as incurred. Provision for estimated losses on uncompleted contracts are made in the period such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, if any, and final contract settlements may result in revisions to costs and income and are recognized in the period the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured.

The asset, if any, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The liabilities, if any, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

#### **Inventory**

Inventory (consisting primarily of replacement parts and repair supplies) is stated at the lower of cost (first-in, first-out) or market.

#### **Property and Equipment and Depreciation and Amortization**

Property and equipment and leasehold improvements are stated at cost. Depreciation is provided generally by accelerated methods over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the lives of the related assets.

#### **Investment in Real Estate**

The investment in real estate consists of undeveloped land, which is stated at cost.

## Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

### Notes to Combined Financial Statements

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Concentrations and Credit Risk

The Company maintains its cash with high quality financial institutions. At times, such amounts may be in excess of the FDIC insurance limits.

The Company reviews a customer's credit history before extending credit and establishes an allowance for doubtful accounts based upon the credit risk of specific customers, historical trends and other information. Generally, the Company does not require collateral from its customers.

#### 3. Fair Value of Financial Instruments

As of December 31, 1997, the estimated fair values of the Company's financial instruments and significant assumptions made in determining fair values are as follows:

**Cash, accounts receivable, accounts payable and accrued expenses and other taxes payable:** The amounts reported in the balance sheet approximate fair value due to the short-term maturities of these instruments.

**Notes receivable and long-term debt:** The amounts reported in the balance sheet are at market rates of interest and approximate fair value.

## Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

### Notes to Combined Financial Statements

4. **Long-Term Note Receivable** Long-term note receivable consists of a note for \$202,497 from the sale of investment real estate, with the related real estate pledged as collateral. The note bears interest at 10% per annum and is collectible in monthly installments of \$2,003, including interest
5. **Note Receivable, Stockholder** Note receivable, stockholder, is an unsecured, noninterest bearing note which has no established maturity or repayment terms. The note balance represents the net position of advances to and from the stockholder.
6. **Notes Payable, Bank** Notes payable, bank, consist of three term loans and a line of credit.
- Substantially all of the Company's assets are pledged as collateral for these obligations. They are cross guaranteed by all of the companies in the combined group and by the stockholder. The agreement provides, among other things, that the Company be in compliance with certain restrictive financial covenants. At December 31, 1997, the Company was in compliance with these covenants.
- The first term loan, a five-year note, is due on October 15, 1999, with interest at the bank's prime lending rate plus  $\frac{1}{2}\%$  (9.00% at December 31, 1997) and requires monthly principal payments of \$16,667; \$366,653 is outstanding at December 31, 1997.
- The second term loan, which is an 18-month note, is due March 1, 1999, with interest at 7.75% and requires monthly principal payments of \$12,722; \$190,830 is outstanding at December 31, 1997.
- The third term loan, which is a ten-year note, is due August 1, 2004, with interest at the bank's prime lending rate plus 1-1/2% (10% at December 31, 1997) and requires monthly principal payments of \$1,608; \$128,684 is outstanding at December 31, 1997.

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Notes to Combined Financial Statements

The line of credit is an asset based instrument using a percentage of qualified accounts receivable and inventory to calculate the amount available, with a maximum of \$900,000. Interest on the line of credit is at the bank's prime lending rate (8.5% at December 31, 1997). At December 31, 1997, \$387,000 was available under the line.

Annual maturities of the Company's long-term debt as of December 31, 1997 for the next five years are as follows:

Year ending December 31,

1998	\$884,970
1999	224,122
2000	19,302
2001	19,302
2002	19,302

Interest expense for the year ended December 31, 1997 was approximately \$84,900.

7. **Commitments** The Company has various contracts which require it to perform services and provide aircraft fuel.
8. **Sales Concentration** Substantially all of the Company's sales and accounts receivable are derived from customers in the airline industry (passenger, freight and the Federal government). While the Company's normal terms of sale do not require specific collateral, the Company has the right to retain possession of the related aircraft until suitable payment arrangements are reached. Approximately 42% of the Company's revenue was derived from sales to and the performance of services for three major customers.

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Notes to Combined Financial Statements

### 9. Income Taxes

Stambaugh's Air Service, Inc., Stambaugh Aviation, Inc. and M.J.S. Equipment Corporation, with the consent of its stockholder, elected to have its income taxed under the S Corporation provisions of the Internal Revenue Code and Pennsylvania S Corporation regulations, which provide that, in lieu of corporation income taxes, the stockholder is taxed on the Company's taxable income. Therefore, no provision for federal or state income taxes is reflected in the combined financial statements.

### 10. Lease Commitments, Rent Expense and Related Party Transactions

The Company presently leases three buildings from the Commonwealth of Pennsylvania pursuant to a month-to-month operating lease. The leases require minimum monthly rental payments of \$18,640 and requires the lessee to bear the cost of insurance, utilities and other operating expenses associated with the leased facilities. The minimum annual rental is adjusted annually by the annual change in the Consumer Price Index.

This leases have been assigned to the Susquehanna Area Regional Airport Authority.

The long-term accounts payable consists of accrued lease payments due the Commonwealth of Pennsylvania resulting from alleged violations of the lease by the Commonwealth, recorded in 1991 and 1992. The parties have agreed to payment terms of \$10,000 per month, (current portion included in accounts payable and accrued expenses at December 31, 1997) without interest, with remaining payments as follows:

Year ending December 31,

1998	\$ 120,000
1999	120,000
2000	48,034



## Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

### Notes to Combined Financial Statements

The Company also leases fueling facilities from the Commonwealth of Pennsylvania pursuant to a monthly operating lease which requires rental payments equal to 5 cents per gallon of fuel received. The lease requires the lessee to bear the cost of insurance, utilities, and other operating expenses which are associated with the lease facilities.

Stambaugh Aviation, Inc. leases a portion of its facilities from its stockholder pursuant to a noncancelable operating lease which expires in 2002. The lease requires annual rental payments of approximately \$280,000. The lease also requires the lessee to bear the cost of all operating expenses associated with the leased property including insurance and real estate taxes.

Stambaugh Aviation, Inc. also leases a portion of its facilities from a nonrelated lessor pursuant to a noncancelable operating lease which expires on January 1, 2002. This lease requires the lessee to bear the cost of all operating expenses associated with the leased property including insurance and real estate taxes. This lease requires annual rental payments of \$49,554. Stambaugh Aviation, Inc. has the option to renew this lease for six additional lease terms of five years each. The annual rental of each renewal term will be equal to 11% of the fair market value of the leased property at the inception of the renewal term, as determined by an independent appraisal.

Rent expense for the year ended December 31, 1997 was \$1,023,263.

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Notes to Combined Financial Statements

Future minimum lease payments, including required expenditures for repairs and maintenance, are as follows:

*Year ending December 31,*

1998	\$ 388,319
1999	315,204
2000	298,010
2001	280,815
2002	—
	<hr/>
	\$1,282,348

### 11. Common Stock

Common stock is summarized as follows:

Stambaugh's Air Service, Inc.

\$100 par value

100 shares authorized, issued and outstanding \$10,000

Stambaugh Aviation, Inc.

\$1 par value

100 shares authorized, issued and outstanding 100

M.J.S. Equipment Corporation

\$25 par value

100 shares authorized, issued and outstanding 2,500

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\$12,600



**Independent Auditors'  
Report on  
Supplemental Material**

Stambaugh's Air Service, Inc.  
Highspire, Pennsylvania

Our audit of the basic combined financial statements included in the preceding section of this report was performed for the purpose of forming an opinion on those statements taken as a whole. The supplemental material presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

*BDO Seidman, LLP*

February 26, 1998

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Schedule of Cost of Sales

<i>Year ended December 31,</i>	<i>1997</i>
<b>Direct material</b>	<b>\$ 6,222,503</b>
<b>Direct labor</b>	<b>2,524,759</b>
<b>Other costs</b>	
Payroll, indirect labor	428,073
Holiday and vacation pay	169,592
Payroll taxes	248,535
Commissions	129,000
Depreciation	132,999
Employee benefits	152,711
Employee training	60,937
Freight	124,254
Insurance	166,863
Rent	973,709
Repairs and maintenance	275,326
Security expense	81,567
Tools	39,471
Uniforms	657
Utilities	179,023
Vehicle expenses	9,632
<b>Total other costs</b>	<b>3,172,349</b>
<b>Cost of sales</b>	<b>\$11,919,611</b>

*See accompanying notes to combined financial statements*

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Schedule of General and Administrative Expenses

<i>Year ended December 31,</i>	<i>1997</i>
Salaries, office	\$ 519,187
Holiday and vacation pay	30,798
Payroll taxes	41,349
Advertising	104,484
Depreciation and amortization	16,554
Dues and subscriptions	12,447
Employee benefits	31,497
Office expense	45,547
Professional fees	263,773
Rent	49,554
Taxes and licenses	43,123
Telephone	55,796
Travel and entertainment	303,396
Bad debts	461,213
<b>Total general and administrative expenses</b>	<b>\$1,978,718</b>

*See accompanying notes to combined financial statements.*

**Stambaugh's Air Service, Inc.  
and Affiliates  
(S Corporations)**

**Report on Combined Financial Statements  
and Supplemental Material**  
Year Ended December 31, 1998



BDO Seidman, LLP  
Accountants and Consultants

# **Stambaugh's Air Service, Inc. and Affiliates (S Corporations)**

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Accountants and Consultants

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## Independent Auditors' Report

Stambaugh's Air Service, Inc.  
Highspire, Pennsylvania

We have audited the accompanying combined balance sheet of Stambaugh's Air Service, Inc. and affiliates (S Corporations) as of December 31, 1998, and the related combined statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Stambaugh's Air Service, Inc. and affiliates as of December 31, 1998, and the combined results of their operations and their combined cash flows for the year then ended in conformity with generally accepted accounting principles.

*BDO Seidman, LLP*

March 5, 1999

*December 31,* 1998

**Assets (Pledged) (Note 6)**

**Current assets**

Accounts receivable, net of allowance for doubtful accounts of \$2,399 (Note 8)	\$ 1,848,425
Inventory	531,971
Current maturities of long-term note receivable	13,500
Prepaid expenses and other current assets (Note 4)	235,487

**Total current assets** 2,629,383

**Property and equipment**

Land and buildings	429,428
Equipment and vehicles	3,410,402
Leasehold improvements	467,818

4,307,648

**Less accumulated depreciation and amortization** 3,677,483

**Net property and equipment** 630,165

**Other assets**

Long-term note receivable, net of current maturities (Note 4)	188,997
Note receivable, stockholder (Note 5)	2,414,741
Security deposits	22,007
Investment in real estate	90,000

**Total other assets** 2,715,745

**Total assets** \$ 5,975,293

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Balance Sheet

*December 31,* 1998

### Liabilities and Stockholders' Equity

#### Current liabilities

Cash overdraft	\$ 86,387
Notes payable, bank (Note 6)	1,041,082
Accounts payable and accrued expenses (Note 10)	1,276,586
Payroll and other taxes payable	152,264

Total current liabilities 2,556,319

Long-term accounts payable, net of current maturities (Note 10) 57,904

Notes payable, bank (Note 6) 90,079

Total liabilities 2,704,302

#### Commitments and contingencies (Notes 7 and 10)

#### Stockholders' equity

Common stock (Note 11)	12,600
Additional paid-in capital	3,296
Retained earnings	3,255,095

Total stockholders' equity 3,270,991

Total liabilities and stockholders' equity \$ 5,975,293

*See accompanying notes to combined financial statements.*



# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Statement of Income and Retained Earnings

<i>Year ended December 31,</i>	<i>1998</i>
Sales (Note 8)	\$ 11,890,248
Cost of sales	10,238,156
Gross profit	1,652,092
General and administrative expenses	1,474,172
Income before other income	177,920
Other income	
Rental income (Note 10)	9,300
Interest income, net of interest expense of \$101,280	22,732
Total other income	32,032
Net income	209,952
Retained earnings at beginning of year	3,045,143
Retained earnings at end of year	\$ 3,255,095

*See accompanying notes to combined financial statements.*

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Statement of Cash Flows

*Year ended December 31,*

1998

<b>Cash flows from operating activities</b>	
Net income	\$ 209,952
Adjustments to reconcile net income to net cash (used in) operating activities	
Depreciation and amortization	143,151
(Increase) decrease in assets	
Accounts receivable	(335,506)
Inventory	20,202
Prepaid expenses	9,585
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	(23,177)
Payroll and other taxes payable	83,550
Long-term accounts payable	(110,130)
<b>Net cash (used in) operating activities</b>	<b>(2,373)</b>
<b>Cash flows from investing activities</b>	
Purchase of property and equipment	(96,770)
Security deposits	33,850
<b>Net cash (used in) investing activities</b>	<b>(62,920)</b>
<b>Cash flows from financing activities</b>	
Borrowings on notes payable, bank	(68,006)
Proceeds from stockholder	137,162
<b>Net cash provided by financing activities</b>	<b>69,156</b>
<b>Net increase in cash</b>	<b>3,863</b>
<b>Cash (overdraft) at beginning of year</b>	<b>(90,250)</b>
<b>Cash (overdraft) at end of year</b>	<b>\$ (86,387)</b>
<b>Supplemental disclosure of cash flow information</b>	
Cash paid during the year for interest	\$ 98,444

*See accompanying notes to combined financial statements.*

# **Stambaugh's Air Service, Inc. and Affiliates (S Corporations)**

## **Notes to Combined Financial Statements**

**1. Description of  
Principal  
Business  
Activities and  
Principles of  
Combination**

The accompanying combined financial statements include the accounts of Stambaugh's Air Service, Inc. ("Stambaugh"), Stambaugh Aviation, Inc. and M.J.S. Equipment Corporation (collectively, the "Company"). Stambaugh's principal stockholder is the sole stockholder of Stambaugh Aviation, Inc. and M.J.S. Equipment Corporation. All significant intercompany transactions have been eliminated from the accompanying combined financial statements.

Stambaugh and Stambaugh Aviation, Inc. provide aircraft overhaul and repair services in central Pennsylvania and southeast Georgia. Stambaugh also provides aircraft fueling services and other related airport services. M.J.S. Equipment Corporation is presently a dormant company.

Substantially all activities performed by Stambaugh Aviation, Inc. are done pursuant to a subcontracting agreement with Stambaugh.

**2. Summary of  
Significant  
Accounting  
Policies**

### **Income Recognition and Costs**

Revenues from fixed-price and modified fixed-price construction contracts are recognized on the percentage of completion method, measured by the percentage of tasks performed (labor hours) to date to estimated total tasks for each contract. Management believes expended labor hours is the best available measure of progress on these contracts. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned, measured by the cost-to-cost method.

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Notes to Combined Financial Statements

Contract costs include all direct material and labor costs, and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, if any, and final contract settlements may result in revisions to costs and income, and are recognized in the period the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured.

The asset, if any, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The liabilities, if any, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

### Inventory

Inventory (consisting primarily of replacement parts and repair supplies) is stated at the lower of cost (first-in, first-out) or market.

### Property and Equipment

Property and equipment and leasehold improvements are stated at cost. Depreciation is provided generally by accelerated methods over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the lives of the related assets.

### Investment in Real Estate

The investment in real estate consists of undeveloped land, which is stated at cost.

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Notes to Combined Financial Statements

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Concentrations of Credit Risk

The Company maintains its cash with high-quality financial institutions. At times, such amounts may be in excess of Federal Deposit Insurance Corporation insurance limits.

The Company reviews a customer's credit history before extending credit and establishes an allowance for doubtful accounts based upon the credit risk of specific customers, historical trends and other information. Generally, the Company does not require collateral from its customers.

### 3. Fair Value of Financial Instruments

As of December 31, 1998, the estimated fair values of the Company's financial instruments and significant assumptions made in determining fair values are as follows:

**Cash, accounts receivable, accounts payable and accrued expenses, and other taxes payable:** The amounts reported in the balance sheet approximate fair value due to the short-term maturities of these instruments.

**Notes receivable and long-term debt:** The amounts reported in the balance sheet are at market rates of interest and approximate fair value.

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Notes to Combined Financial Statements

4. Long-Term Note Receivable Long-term note receivable consists of a note for \$202,497 from the sale of investment real estate, with the related real estate pledged as collateral. The note bears interest at 10% per annum and is collectible in monthly installments of \$2,003, including interest.
5. Note Receivable, Stockholder Note receivable, stockholder, is an unsecured, noninterest-bearing note which has no established maturity or repayment terms. The note balance represents the net position of advances to and from the stockholder.
6. Notes Payable, Bank Notes payable, bank, consist of three term loans and a line of credit.
- Substantially all of the Company's assets are pledged as collateral for these obligations. They are cross guaranteed by all of the companies in the combined group and by the stockholder. The agreement provides, among other things, that the Company be in compliance with certain restrictive financial covenants.
- The first term loan, a five-year note, is due October 15, 1999, with interest at the bank's prime lending rate (7.75% at December 31, 1998) and requires monthly principal payments of \$16,667; \$166,614 is outstanding at December 31, 1998.
- The second term loan, which is an 18-month note, is due March 1, 1999, with interest at 7.75% and requires monthly principal payments of \$12,722; \$38,166 is outstanding at December 31, 1998.
- The third term loan, which is a 10-year note, is due August 1, 2004, with interest at the bank's prime lending rate plus 1.5% (9.25% at December 31, 1998) and requires monthly principal payments of \$1,608; \$109,381 is outstanding at December 31, 1998.



# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Notes to Combined Financial Statements

The line of credit, renewable April 30, 1999, is an asset-based instrument using a percentage of qualified accounts receivable and inventory to calculate the amount available, with a maximum of \$1,200,000. Interest on the line of credit is at the bank's prime lending rate (7.75% at December 31, 1998). At December 31, 1998, \$383,000 was available under the line.

Annual maturities of the Company's long-term debt are as follows:

<i>Year ending December 31,</i>	<i>Amount</i>
1999	\$ 224,082
2000	19,302
2001	19,302
2002	19,302
	<u>\$ 281,988</u>

Interest expense for the year ended December 31, 1998 was approximately \$97,400.

### 7. Commitments and Contingencies

The Company has various contracts which require it to perform services and provide aircraft fuel.

The Company is subject to various lawsuits during the normal course of business. These lawsuits are not expected to have a material adverse effect on the combined financial statements.

### 8. Sales Concentration

Substantially all of the Company's sales and accounts receivable are derived from customers in the airline industry (passenger, freight and the federal government). While the Company's normal terms of sale do not require specific collateral, the Company has the right to retain possession of the related aircraft until suitable payment arrangements are reached. Approximately 57% of the Company's revenue was derived from sales to, and the performance of, services for three major customers. Total amount due from these customers at December 31, 1998 was approximately \$1,100,000.

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Notes to Combined Financial Statements

### 9. Income Taxes

Stambaugh, Stambaugh Aviation, Inc. and MJS Equipment Corporation, with the consent of its stockholders, elected to have their income taxed under the S Corporation provisions of the Internal Revenue Code and Pennsylvania S Corporation regulations, which provide that, in lieu of corporate income taxes, the stockholders are taxed on the Company's taxable income. Therefore, no provision for federal or state income taxes is reflected in the combined financial statements.

### 10. Lease Commitments, Rent Expense and Related Party Transactions

The Company presently leases three buildings from the Commonwealth of Pennsylvania pursuant to a month-to-month operating lease. The leases require minimum monthly rental payments of \$9,774 and requires the lessee to bear the cost of insurance, utilities and other operating expenses associated with the leased facilities. The minimum annual rental is adjusted annually by the annual change in the Consumer Price Index.

The leases have been assigned to the Susquehanna Area Regional Airport Authority.

The long-term accounts payable consists of accrued lease payments due the Commonwealth of Pennsylvania resulting from alleged violations of the lease by the commonwealth, recorded in 1991 and 1992. The parties have agreed to payment terms of \$10,000 per month (current portion included in accounts payable and accrued expenses at December 31, 1998) without interest, with remaining payments as follows:

<i>Year ending December 31,</i>	<i>Amount</i>
1999	\$ 120,000
2000	57,904
	<u>\$ 177,904</u>



## Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

### Notes to Combined Financial Statements

The Company also leases fueling facilities from the Commonwealth of Pennsylvania pursuant to a monthly operating lease which requires rental payments equal to \$.05 per gallon of fuel received. The lease requires the lessee to bear the cost of insurance, utilities and other operating expenses which are associated with the lease facilities.

Stambaugh Aviation, Inc. leases a portion of its facilities from its stockholder pursuant to a noncancelable operating lease which expires in 2002. The lease requires annual rental payments of approximately \$260,000. The lease also requires the lessee to bear the cost of all operating expenses associated with the leased property, including insurance and real estate taxes.

Stambaugh Aviation, Inc. also leases a portion of its facilities from a nonrelated lessor pursuant to a noncancelable operating lease which expires January 1, 2002. This lease requires the lessee to bear the cost of all operating expenses associated with the leased property, including insurance and real estate taxes. This lease requires annual rental payments of \$49,554. Stambaugh Aviation, Inc. has the option to renew this lease for six additional lease terms of five years each. The annual rental of each renewal term will be equal to 11% of the fair market value of the leased property at the inception of the renewal term, as determined by an independent appraisal.

Rent expense for the year ended December 31, 1998 was \$909,692.

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Notes to Combined Financial Statements

Future minimum lease payments, including required expenditures for repairs and maintenance, are as follows:

<i>Year ending December 31,</i>	<i>Amount</i>
1999	\$ 321,855
2000	296,122
2001	280,164
	<hr/> \$ 898,141 <hr/>

### 11. Common Stock

Common stock is summarized as follows:

Stambaugh's Air Service, Inc.	
\$100 par value	
100 shares authorized, issued and outstanding	\$ 10,000
Stambaugh Aviation, Inc.	
\$1 par value	
100 shares authorized, issued and outstanding	100
M.J.S. Equipment Corporation	
\$25 par value	
100 shares authorized, issued and outstanding	2,500
	<hr/> \$ 12,600 <hr/>

### 12. Year 2000 Issues (Unaudited)

Like others, the Company could be adversely affected if the computer systems they, their suppliers or customers use do not properly process and calculate date-related information and data from the period surrounding and including January 1, 2000. This is commonly known as the "Year 2000" issue. Additionally, this issue could impact noncomputer systems and devices such as production equipment, elevators, etc. At this time, because of the complexities involved in the issue, management cannot provide assurances that the Year 2000 issue will not have an impact on the Company's operations.

**Independent Auditors'  
Report on  
Supplemental Material**

Stambaugh's Air Service, Inc.  
Highspire, Pennsylvania

Our audit of the basic combined financial statements included in the preceding section of this report was performed for the purpose of forming an opinion on those statements taken as a whole. The supplemental material presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

*BDO Seidman, LLP*

March 5, 1999

# Stambaugh's Air Service, Inc. and Affiliates

## (S Corporations)

### Combined Schedule of Cost of Sales

*Year ended December 31,*

1998

<b>Direct material</b>	\$ 4,703,865
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<b>Direct labor</b>	2,441,310
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**Other costs**

Payroll, indirect labor	426,256
Holiday and vacation pay	168,303
Payroll taxes	322,419
Commissions	143,637
Depreciation	128,828
Employee benefits	155,919
Employee training	24,267
Freight	115,102
Insurance	169,134
Rent	861,789
Repairs and maintenance	233,881
Security expense	74,622
Tools	37,066
Uniforms	1,468
Utilities	219,415
Vehicle expenses	10,875

<b>Total other costs</b>	3,092,981
--------------------------	-----------

**\$10,238,156**

# Stambaugh's Air Service, Inc. and Affiliates

## (S Corporations)

### Combined Schedule of General and Administrative Expenses

<i>Year ended December 31,</i>	1998
Salaries, office	\$ 595,553
Holiday and vacation pay	42,004
Payroll taxes	48,025
Advertising	62,369
Depreciation and amortization	14,323
Dues and subscriptions	17,526
Employee benefits	31,883
Office expense	43,050
Professional fees	231,544
Rent	47,903
Taxes and licenses	147,392
Telephone	58,673
Travel and entertainment	125,805
Bad debts	8,122
	<u>\$1,474,172</u>

**Stambaugh's Air Service, Inc.  
and Affiliates  
(S Corporations)**

**Report on Combined Financial Statements  
and Supplemental Material**  
Year Ended December 31, 1999



BDO Seidman, LLP  
Accountants and Consultants

# **Stambaugh's Air Service, Inc. and Affiliates (S Corporations)**

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Accountants and Consultants

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## Independent Auditors' Report

Stambaugh's Air Service, Inc.  
Highspire, Pennsylvania

We have audited the accompanying combined balance sheet of Stambaugh's Air Service, Inc. and affiliates (S Corporations) as of December 31, 1999, and the related combined statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Stambaugh's Air Service, Inc. and affiliates as of December 31, 1999, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

*BDO Seidman, LLP*

March 9, 2000



<i>December 31,</i>	1999
<b>Assets (Pledged) (Note 5)</b>	
<b>Current assets</b>	
Cash	\$ 32,888
Accounts receivable, net of allowance for doubtful accounts of \$55,131 (Note 7)	1,223,607
Inventory	483,312
Current maturities of long-term note receivable (Note 3)	6,750
Prepaid expenses and other current assets	41,243
<b>Total current assets</b>	<b>1,787,800</b>
<b>Property and equipment</b>	
Land and buildings	429,428
Equipment and vehicles	3,483,125
Leasehold improvements	467,818
	4,380,371
Less accumulated depreciation and amortization	3,796,582
<b>Net property and equipment</b>	<b>583,789</b>
<b>Other assets</b>	
Long-term note receivable, net of current maturities (Note 3)	187,241
Note receivable, stockholder (Note 4)	2,980,218
Security deposits	50,449
Investment in real estate	90,000
<b>Total other assets</b>	<b>3,307,908</b>
<b>Total assets</b>	<b>\$ 5,679,497</b>

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Balance Sheet

<i>December 31,</i>	1999
<b>Liabilities and Stockholders' Equity</b>	
<b>Current liabilities</b>	
Notes payable, bank (Note 5)	\$ 215,000
Accounts payable and accrued expenses	999,345
Payroll and other taxes payable	471,829
<b>Total current liabilities</b>	<b>1,686,174</b>
Notes payable, bank (Note 5)	497,757
<b>Total liabilities</b>	<b>2,183,931</b>
<b>Commitments and contingencies (Notes 6 and 8)</b>	
<b>Stockholders' equity</b>	
Common stock (Note 9)	12,600
Additional paid-in capital	3,296
Retained earnings	3,479,670
<b>Total stockholders' equity</b>	<b>3,495,566</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 5,679,497</b>

*See accompanying notes to combined financial statements.*

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Statement of Income and Retained Earnings

<i>Year ended December 31,</i>	<i>1999</i>
Sales (Note 7)	\$ 10,832,155
Cost of sales	8,566,439
Gross profit	2,265,716
General and administrative expenses	2,008,992
Income before other income (expense)	256,724
Other income (expense)	
Rental income (Note 8)	6,374
Interest (expense), net of interest income of \$110,118 (Note 5)	(38,523)
Total other income (expense), net	(32,149)
Net income	224,575
Retained earnings at beginning of year	3,255,095
Retained earnings at end of year	\$ 3,479,670

*See accompanying notes to combined financial statements.*

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Statement of Cash Flows

<i>Year ended December 31,</i>	<i>1999</i>
<b>Cash flows from operating activities</b>	
Net income	\$ 224,575
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation and amortization	119,099
Changes in assets and liabilities	
Decrease in assets	
Accounts receivable	624,818
Inventory	48,659
Prepaid expenses	194,244
(Decrease) increase in liabilities	
Accounts payable and accrued expenses	(277,241)
Payroll and other taxes payable	319,565
Long-term accounts payable	(57,904)
<b>Net cash provided by operating activities</b>	<b>1,195,815</b>
<b>Cash flows from investing activities</b>	
Purchase of property and equipment	(72,723)
Long-term notes receivable	8,506
Security deposits	(28,442)
<b>Net cash (used in) investing activities</b>	<b>(92,659)</b>
<b>Cash flows from financing activities</b>	
Repayments on notes payable, bank	(418,404)
Advances to stockholder	(565,477)
<b>Net cash (used in) financing activities</b>	<b>(983,881)</b>
<b>Net increase in cash</b>	<b>119,275</b>
<b>Cash (overdraft) at beginning of year</b>	<b>(86,387)</b>
<b>Cash at end of year</b>	<b>\$ 32,888</b>
<b>Supplemental disclosure of cash flow information</b>	
Cash paid during the year for interest	\$ 153,722

*See accompanying notes to combined financial statements*

## Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

### Notes to Combined Financial Statements

**1. Description of  
Principal  
Business  
Activities and  
Principles of  
Combination**

The accompanying combined financial statements include the accounts of Stambaugh's Air Service, Inc. ("Stambaugh"), Stambaugh Aviation, Inc. and M.J.S. Equipment Corporation (collectively, the "Company"). Stambaugh's principal stockholder is the sole stockholder of Stambaugh Aviation, Inc. and M.J.S. Equipment Corporation. All significant intercompany transactions have been eliminated from the accompanying combined financial statements.

Stambaugh and Stambaugh Aviation, Inc. provide aircraft overhaul and repair services in central Pennsylvania and southeast Georgia. Stambaugh also provides aircraft fueling services and other related airport services. M.J.S. Equipment Corporation is presently a dormant company.

Substantially all activities performed by Stambaugh Aviation, Inc. are done pursuant to a subcontracting agreement with Stambaugh.

**2. Summary of  
Significant  
Accounting  
Policies**

#### **Income Recognition and Costs**

Revenues from fixed-price and modified fixed-price construction contracts are recognized on the percentage of completion method, measured by the percentage of tasks performed (labor hours) to date to estimated total tasks for each contract. Management believes expended labor hours is the best available measure of progress on these contracts. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned, measured by the cost-to-cost method.

Contract costs include all direct material and labor costs, and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, if any, and final contract settlements may result in revisions to costs and income, and are recognized in the period the revisions are determined.

## **Stambaugh's Air Service, Inc. and Affiliates (S Corporations)**

### **Notes to Combined Financial Statements**

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Profit incentives are included in revenues when their realization is reasonably assured.

The asset, if any, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The liabilities, if any, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

#### **Inventory**

Inventory (consisting primarily of replacement parts and repair supplies) is stated at the lower of cost (first-in, first-out) or market.

#### **Property and Equipment**

Property and equipment and leasehold improvements are stated at cost. Depreciation is provided generally by accelerated methods over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the lives of the related assets.

#### **Investment in Real Estate**

The investment in real estate consists of undeveloped land, which is stated at cost.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

### Notes to Combined Financial Statements

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#### Concentrations of Credit Risk

The Company maintains its cash with high-quality financial institutions. At times, such amounts may be in excess of Federal Deposit Insurance Corporation insurance limits.

The Company reviews a customer's credit history before extending credit and establishes an allowance for doubtful accounts based upon the credit risk of specific customers, historical trends and other information. Generally, the Company does not require collateral from its customers.

#### Income Taxes

Stambaugh, Stambaugh Aviation, Inc. and M.J.S. Equipment Corporation, with the consent of their stockholders, elected to have their income taxed under the S Corporation provisions of the Internal Revenue Code and Pennsylvania S Corporation regulations, which provide that, in lieu of corporate income taxes, the stockholders are taxed on the Company's taxable income. Therefore, no provision for federal or state income taxes is reflected in the combined financial statements.

- |                                       |   |
|---------------------------------------|---|
| 3. Long-Term<br>Note<br>Receivable    | Long-term note receivable consists of a note for \$193,991 from the sale of investment real estate, with the related real estate pledged as collateral. The note bears interest at 10% per annum and is collectible in monthly installments of \$2,003, including interest. |
| 4. Note<br>Receivable,<br>Stockholder | Note receivable, stockholder, is an unsecured, noninterest-bearing note which has no established maturity or repayment terms. The note balance represents the net position of advances to and from the stockholder.   |

## Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

### Notes to Combined Financial Statements

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5. Notes Payable, Bank Notes payable, bank, consist of a line of credit and a note payable.

Substantially all of the Company's assets are pledged as collateral for these obligations. They are cross guaranteed by all of the companies in the combined group and by the principal stockholder. The agreement provides, among other things, that the Company be in compliance with certain restrictive financial covenants.

The line of credit, renewable April 30, 2000, is an asset-based instrument using a percentage of qualified accounts receivable and inventory to calculate the amount available, with a maximum of \$1,200,000. Interest on the line of credit is at the bank's prime lending rate (8.5% at December 31, 1999). At December 31, 1999, \$985,000 was available under the line.

The note payable, which matures on June 26, 2001, has a maximum of \$500,000. Interest on this note payable is .5% above the bank's prime lending rate (9% at December 31, 1999). At December 31, 1999, \$2,243 was available under this note.

Interest expense for the year ended December 31, 1999 was approximately \$149,000.

6. Commitments and Contingencies The Company has various contracts which require it to perform services and provide aircraft fuel.

The Company is subject to various lawsuits during the normal course of business. These lawsuits are not expected to have a material adverse effect on the combined financial statements.



## Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

### Notes to Combined Financial Statements

7. **Sales Concentration** Substantially all of the Company's sales and accounts receivable are derived from customers in the airline industry (passenger, freight and the federal government). While the Company's normal terms of sale do not require specific collateral, the Company has the right to retain possession of the related aircraft until suitable payment arrangements are reached. Approximately 51% of the Company's revenue was derived from sales to, and the performance of, services for three major customers. Total amount due from these customers at December 31, 1999 was approximately \$46,000.

8. **Lease Commitments, Rent Expense and Related Party Transactions** The Company presently leases three buildings from the Commonwealth of Pennsylvania pursuant to month-to-month operating leases. The leases require minimum monthly rental payments of \$18,327 and require the lessee to bear the cost of insurance, utilities and other operating expenses associated with the leased facilities. The minimum annual rental is adjusted annually by the annual change in the Consumer Price Index.

The leases have been assigned to the Susquehanna Area Regional Airport Authority.

The Company also leases fueling facilities from the Commonwealth of Pennsylvania pursuant to a monthly operating lease which requires rental payments equal to \$.05 per gallon of fuel received. The lease requires the lessee to bear the cost of insurance, utilities and other operating expenses which are associated with the lease facilities.

Stambaugh Aviation, Inc. leases a portion of its facilities from its stockholder pursuant to a noncancelable operating lease which expires in 2002. The lease requires annual rental payments of approximately \$223,000. The lease also requires the lessee to bear the cost of all operating expenses associated with the leased property, including insurance and real estate taxes.

Stambaugh Aviation, Inc. also leases a portion of its facilities from a nonrelated lessor pursuant to a noncancelable operating lease

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Notes to Combined Financial Statements

which expires January 1, 2002. This lease requires the lessee to bear the cost of all operating expenses associated with the leased property, including insurance and real estate taxes. This lease requires annual rental payments of \$49,554. Stambaugh Aviation, Inc. has the option to renew this lease for six additional lease terms of five years each. The annual rental of each renewal term will be equal to 11% of the fair market value of the leased property at the inception of the renewal term, as determined by an independent appraisal.

Rent expense for the year ended December 31, 1999 was \$868,998.

Future minimum lease payments, including required expenditures for repairs and maintenance, are as follows:

<i>Year ending December 31,</i>	<i>Amount</i>
2000	\$ 278,724
2001	272,724
	<u>\$ 551,448</u>

### 9. Common Stock

Common stock is summarized as follows:

Stambaugh's Air Service, Inc.

\$100 par value

100 shares authorized, issued and outstanding \$ 10,000

Stambaugh Aviation, Inc.

\$1 par value

100 shares authorized, issued and outstanding 100

M.J.S. Equipment Corporation

\$25 par value

100 shares authorized, issued and outstanding 2,500

\$ 12,600

**Independent Auditors'  
Report on  
Supplemental Material**

Stambaugh's Air Service, Inc.  
Highspire, Pennsylvania

Our audit of the basic combined financial statements included in the preceding section of this report was performed for the purpose of forming an opinion on those statements taken as a whole. The supplemental material presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

*BDO Seidman, LLP*

March 9, 2000

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Schedule of Cost of Sales

<i>Year ended December 31,</i>	1999
Direct material	\$ 2,959,963
Direct labor	2,354,821
Other costs	
Payroll, indirect labor	428,244
Holiday and vacation pay	202,702
Payroll taxes	291,127
Depreciation	105,165
Employee benefits	234,495
Employee training	40,714
Freight	121,237
Insurance	208,060
Rent	819,444
Repairs and maintenance	478,988
Security expense	72,780
Tools	22,089
Uniforms	1,529
Utilities	215,381
Vehicle expenses	9,700
Total other costs	3,251,655
	\$ 8,566,439

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Schedule of General and Administrative Expenses

<i>Year ended December 31,</i>	<i>1999</i>
Salaries, office	\$ 609,061
Holiday and vacation pay	39,479
Payroll taxes	44,460
Advertising	86,635
Commissions	193,051
Depreciation and amortization	13,934
Dues and subscriptions	7,494
Employee benefits	10,736
Office expense	51,159
Professional fees	393,598
Rent	49,554
Taxes and licenses	169,159
Telephone	65,754
Travel and entertainment	208,082
Bad debts	66,836
	<u>\$2,008,992</u>

# **Stambaugh's Air Service, Inc. and Affiliates (S Corporations)**

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## **Combined Financial Statements and Supplemental Material** Year Ended December 31, 2000



Cooperation Collaboration Concentration Communication



BDO Seidman, LLP  
Accountants and Consultants

# **Stambaugh's Air Service, Inc. and Affiliates (S Corporations)**

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## Independent Auditors' Report

Stambaugh's Air Service, Inc.  
Highspire, Pennsylvania

We have audited the accompanying combined balance sheet of Stambaugh's Air Service, Inc. and affiliates (S Corporations) as of December 31, 2000, and the related combined statements of operations and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Stambaugh's Air Service, Inc. and affiliates as of December 31, 2000, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*BDO Seidman, LLP*

March 23, 2001, except for Note 5,  
which is as of October 31, 2001.





<i>December 31,</i>	2000
<b>Assets (Pledged) (Note 5)</b>	
<b>Current assets</b>	
Accounts receivable, net of allowance for doubtful accounts of \$46,901 (Notes 6, 7 and 8)	\$ 1,637,219
Inventory	557,157
Current maturities of long-term note receivable (Note 3)	6,750
Prepaid expenses and other current assets	570,072
<b>Total current assets</b>	<b>2,771,198</b>
<b>Property and equipment</b>	
Land and buildings	640,273
Equipment and vehicles	3,579,156
Leasehold improvements	467,818
	4,687,247
Less accumulated depreciation and amortization	3,922,262
<b>Net property and equipment</b>	<b>764,985</b>
<b>Other assets</b>	
Accounts receivable, long-term (Notes 6 and 7)	605,696
Long-term note receivable, net of current maturities (Note 3)	219,711
Note receivable, stockholder (Note 5)	3,464,135
Security deposits	36,941
Investment in real estate	90,000
<b>Total other assets</b>	<b>4,416,483</b>
<b>Total assets</b>	<b>\$ 7,952,666</b>

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Balance Sheet

<i>December 31,</i>	<b>2000</b>
<b>Liabilities and Stockholders' Equity</b>	
<b>Current liabilities</b>	<b>\$ 69,918</b>
Cash overdraft	1,118,385
Notes payable, bank, current (Note 5)	1,596,735
Accounts payable and accrued expenses	1,272,950
Payroll and other taxes payable (Note 7)	
<b>Total current liabilities</b>	<b>4,057,988</b>
<b>Notes payable, bank, net of current maturities (Note 5)</b>	<b>657,308</b>
<b>Total liabilities</b>	<b>4,715,296</b>
<b>Commitments and contingencies (Notes 6 and 9)</b>	
<b>Stockholders' equity</b>	<b>12,600</b>
Common stock (Note 10)	3,296
Additional paid-in capital	3,221,474
Retained earnings	
<b>Total stockholders' equity</b>	<b>3,237,370</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 7,952,666</b>

*See accompanying notes to combined financial statements*

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Statement of Operations and Retained Earnings

<i>Year ended December 31.</i>	2000
Revenues (Note 8)	\$ 11,944,438
<u>Cost of revenues</u>	<u>10,146,747</u>
Gross profit	1,797,691
<u>General and administrative expenses</u>	<u>2,219,156</u>
<u>(Loss) before other income (expense)</u>	<u>(421,465)</u>
Other income (expense)	
Gain on involuntary conversion of equipment	150,000
Interest income	177,680
Interest (expense) (Note 5)	(164,411)
<u>Total other income (expense), net</u>	<u>163,269</u>
Net (loss)	(258,196)
<u>Retained earnings at beginning of year</u>	<u>3,479,670</u>
<u>Retained earnings at end of year</u>	<u>\$ 3,221,474</u>

*See accompanying notes to combined financial statements*

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Statement of Cash Flows

<i>Year ended December 31,</i>	<b>2000</b>
<b>Cash flows from operating activities</b>	<b>\$ (258,196)</b>
Net (loss)	
Adjustments to reconcile net (loss) to net cash (used in) operating activities	
Depreciation and amortization	125,680
Changes in assets and liabilities	
(Increase) in assets	(1,051,778)
Accounts receivable	(73,845)
Inventory	(528,829)
Prepaid expenses	
Increase in liabilities	597,390
Accounts payable and accrued expenses	801,121
Payroll and other taxes payable	
<b>Net cash (used in) operating activities</b>	<b>(388,457)</b>
<b>Cash flows from investing activities</b>	<b>(306,876)</b>
Purchase of property and equipment	13,508
Security deposits	
<b>Net cash (used in) investing activities</b>	<b>(293,368)</b>
<b>Cash flows from financing activities</b>	<b>1,062,936</b>
Borrowings under line of credit	(483,917)
Advances to stockholder	
<b>Net cash provided by financing activities</b>	<b>579,019</b>
<b>Net (decrease) in cash</b>	<b>(102,806)</b>
<b>Cash at beginning of year</b>	<b>32,888</b>
<b>Cash (overdraft) at end of year</b>	<b>\$ (69,918)</b>
<b>Supplemental disclosure of cash flow information</b>	
Cash paid during the year for interest	\$ 100,501

*See accompanying notes to combined financial statements*

## **Stambaugh's Air Service, Inc. and Affiliates (S Corporations)**

### **Notes to Combined Financial Statements**

**1. Description of  
Principal  
Business  
Activities and  
Principles of  
Combination**

The accompanying combined financial statements include the accounts of Stambaugh's Air Service, Inc. ("Stambaugh"), Stambaugh Aviation, Inc. and M.J.S. Equipment Corporation (collectively, the "Company"). Stambaugh's principal stockholder is the sole stockholder of Stambaugh Aviation, Inc. and M.J.S. Equipment Corporation. All significant intercompany transactions have been eliminated from the accompanying combined financial statements.

Stambaugh and Stambaugh Aviation, Inc. provide aircraft overhaul and repair services in central Pennsylvania and southeast Georgia. M.J.S. Equipment Corporation is presently a dormant company.

Substantially all activities performed by Stambaugh Aviation, Inc. are done pursuant to a subcontracting agreement with Stambaugh.

**2. Summary of  
Significant  
Accounting  
Policies**

#### **Income Recognition and Costs**

Revenues from fixed-price and modified fixed-price construction contracts are recognized on the percentage of completion method, measured by the percentage of tasks performed (labor hours) to date to estimated total tasks for each contract. Management believes expended labor hours is the best available measure of progress on these contracts. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned, measured by the cost-to-cost method.

Contract costs include all direct material and labor costs, and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, if any, and final contract settlements may result in revisions to costs and income, and are recognized in the period the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured.

## **Stambaugh's Air Service, Inc. and Affiliates (S Corporations)**

### **Notes to Combined Financial Statements**

The asset, if any, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The liabilities, if any, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

#### **Inventory**

Inventory (consisting primarily of replacement parts and repair supplies) is stated at the lower of cost (first-in, first-out) or market.

#### **Property and Equipment**

Property and equipment and leasehold improvements are stated at cost. Depreciation is provided generally by accelerated methods over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the lives of the related assets.

#### **Investment in Real Estate**

The investment in real estate consists of undeveloped land, which is stated at cost.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Concentrations of Credit Risk**

The Company maintains its cash with high-quality financial institutions. At times, such amounts may be in excess of Federal Deposit Insurance Corporation insurance limits.

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Notes to Combined Financial Statements

The Company reviews a customer's credit history before extending credit and establishes an allowance for doubtful accounts based upon the credit risk of specific customers, historical trends and other information. Generally, the Company does not require collateral from its customers.

### Income Taxes

Stambaugh, Stambaugh Aviation, Inc. and M.J.S. Equipment Corporation, with the consent of their stockholders, elected to have their income taxed under the S Corporation provisions of the Internal Revenue Code and Pennsylvania S Corporation regulations, which provide that, in lieu of corporate income taxes, the stockholders are taxed on the Company's taxable income. Therefore, no provision for federal or state income taxes is reflected in the combined financial statements.

- |                                       |   |
|---------------------------------------|---|
| 3. Long-Term<br>Note<br>Receivable    | Long-term note receivable consists of a note for \$193,991 from the sale of investment real estate, with the related real estate pledged as collateral. The note bears interest at 10% per annum and is collectible in monthly installments of \$2,003, including interest. |
| 4. Note<br>Receivable,<br>Stockholder | Note receivable, stockholder, is an unsecured, noninterest-bearing note which has no established maturity or repayment terms. The note balance represents the net position of advances to and from the stockholder.   |
| 5. Notes Payable,<br>Bank             | Notes payable, bank, consist of borrowings under a line of credit agreement and three other notes payable.  |

Substantially all of the Company's assets are pledged as collateral for these obligations. They are cross guaranteed by all of the companies in the combined group and by the principal stockholder. The line of credit agreement provides, among other things, that the Company be in compliance with certain restrictive financial covenants.



## Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

### Notes to Combined Financial Statements

The line of credit, renewable May 31, 2001, is asset-based using a percentage of qualified accounts receivable and inventory to calculate the amount available, with a maximum borrowing limit of \$1,500,000. Interest on the line of credit is at the bank's prime lending rate (9.5% at December 31, 2000). At December 31, 2000, \$417,064 was available under the line. This line of credit was extended first through July 31, 2001 and then re-extended through January 31, 2002.

The first note payable, which matures in January 2002, has a maximum borrowing limit of \$500,000. Interest on this note payable is .5% above the bank's prime lending rate (10% at December 31, 2000). At December 31, 2000, \$2,243 was available under this note.

The second note payable, which matures on September 30, 2005, is a term loan of \$150,000. Interest on this note payable is at the bank's prime lending rate (9.5% at December 31, 2000). The terms of this note require monthly principal payments of \$2,500 plus interest.

The third note payable, which matures on November 30, 2005, is a term loan of \$50,000. Interest on this note payable is at the bank's prime lending rate (9.5% at December 31, 2000). The terms of this note require monthly payments of \$833.



# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Notes to Combined Financial Statements

The following is a schedule of future minimum repayments of long-term debt as of December 31, 2000:

<i>Year ending December 31,</i>	<i>Amount</i>
2001	\$1,118,385
2002	533,755
2003	36,601
2004	37,266
2005	49,686
Total minimum payments	1,775,693
Less current maturities	1,118,385
	<u>\$ 657,308</u>

Interest expense for the year ended December 31, 2000 was approximately \$164,000.

### 6. Commitments and Contingencies

#### U.S. Marshals

In June 1997, the U.S. Government notified the Company that it was conducting an audit/investigation of the Company's performance of an aircraft maintenance contract for the U.S. Marshals' Service.

The Company intends to contest vigorously charges, if any, resulting therefrom. Although the outcome of this matter is uncertain, the Company has recorded an allowance on the amounts owed to the Company under this contract for what it believes may not be collected.

#### Accounts Receivable, Long-Term

The Company brought an action against a large customer for breach of contract and payment of outstanding amounts due. During February 2001, a Federal Court found in favor of the Company, which received a judgment totaling \$1.2 million to be

## Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

### Notes to Combined Financial Statements

paid over twenty months.

#### Other

The Company is subject to various lawsuits during the normal course of business. The settlement of these lawsuits are not expected to have a material adverse effect on the combined financial statements.

**7. Payroll and  
Other Taxes  
Payable**

The Company has filed but not paid payroll tax returns for the four quarters in the year ending December 31, 2001 and owes the IRS and other taxing authorities approximately \$1,160,000.

The Company has assigned its \$1.5 million judgment against a former customer to the IRS and has paid approximately \$150,000 since December 31, 2000 through March 23, 2001.

**8. Sales  
Concentration**

Substantially all of the Company's sales and accounts receivable are derived from customers in the airline industry (passenger, freight and the federal government). While the Company's normal terms of sale do not require specific collateral, the Company has the right to retain possession of the related aircraft until suitable payment arrangements are reached. Approximately 56% of the Company's revenue was derived from sales to, and the performance of, services for three major customers. Total amount due from these customers at December 31, 2000 was approximately \$228,957.

**9. Lease  
Commitments,  
Rent Expense  
and Related  
Party  
Transactions**

The Company presently leases two buildings, an aircraft parking area and an employee/visitor parking area from the Susquehanna Area Regional Airport Authority pursuant to a two-year operating lease. The leases require minimum monthly rental payments of \$27,208 and requires the lessee to bear the cost of insurance, utilities and other operating expenses associated with the leased facilities. The minimum annual rental is adjusted annually by the annual change in the Consumer Price Index.

Stambaugh Aviation, Inc. leases a portion of its facilities from its stockholder pursuant to a noncancelable operating lease, which expires in 2002. The lease requires annual rental payments of

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Notes to Combined Financial Statements

approximately \$240,000. The lease also requires the lessee to bear the cost of all operating expenses associated with the leased property, including insurance and real estate taxes.

Stambaugh Aviation, Inc. also leases a portion of its facilities from a nonrelated lessor pursuant to a noncancelable operating lease, which expires January 1, 2002. This lease requires the lessee to bear the cost of all operating expenses associated with the leased property, including insurance and real estate taxes. This lease requires annual rental payments of \$49,554. Stambaugh Aviation, Inc. has the option to renew this lease for six additional lease terms of five years each. The annual rental of each renewal term will be equal to 11% of the fair market value of the leased property at the inception of the renewal term, as determined by an independent appraisal.

Rent expense for the year ended December 31, 2000 was \$518,873.

Future minimum lease payments, including required expenditures for repairs and maintenance, are \$544,075 for the year ending December 31, 2001.

### 10. Common Stock

Common stock is summarized as follows:

#### Stambaugh's Air Service, Inc.

\$100 par value	
100 shares authorized, issued and outstanding	\$ 10,000

#### Stambaugh Aviation, Inc.

\$1 par value	
100 shares authorized, issued and outstanding	100

#### M.J.S. Equipment Corporation

\$25 par value	
100 shares authorized, issued and outstanding	2,500

---

\$ 12,600

**Independent Auditors'  
Report on  
Supplemental Material**

Stambaugh's Air Service, Inc.  
Highspire, Pennsylvania

Our audit of the basic combined financial statements included in the preceding section of this report was performed for the purpose of forming an opinion on those statements taken as a whole. The supplemental material presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

*BDO Seidman, LLP*

March 23, 2001

# Stambaugh's Air Service, Inc. and Affiliates (S Corporations)

## Combined Schedule of Cost of Sales

<i>Year ended December 31.</i>	2000
<b>Direct material</b>	\$ 2,909,237
<b>Direct labor</b>	3,689,987
<b>Other costs</b>	
Payroll, indirect labor	636,614
Holiday and vacation pay	252,005
Payroll taxes	413,145
Depreciation	100,424
Employee benefits	273,634
Employee training	53,428
Freight	125,459
Insurance	200,929
Rent	469,319
Repairs and maintenance	662,637
Security expense	86,125
Tools	35,868
Uniforms	30,288
Utilities	177,162
Vehicle expenses	30,486
<b>Total other costs</b>	3,547,523
	\$ 10,146,747

# Stambaugh's Air Service, Inc. and Affiliates

## (S Corporations)

### Combined Schedule of General and Administrative Expenses

<i>Year ended December 31.</i>	<i>2000</i>
Salaries, office	\$ 748,744
Holiday and vacation pay	51,939
Payroll taxes	45,732
Advertising	98,041
Commissions	219,000
Depreciation and amortization	25,256
Dues and subscriptions	9,665
Employee benefits	29,094
Office expense	77,764
Professional fees	528,715
Rent	49,554
Taxes and licenses	68,980
Telephone	58,940
Travel and entertainment	212,962
Bad debts	(5,230)
	<u>\$2,219,156</u>

Stambaugh's Air Service, Inc.  
 Separate and Combined Balance Sheet  
 As of December 31, 2001

Assets	Stambaugh's Air Service Inc.	Stambaugh's Aviation Inc.	M.J.S. Equipment Corp.	Eliminations	Combined
Current Assets:					
Cash	47,229	1,428			48,657
Accounts Receivable:					0
Trade	1,187,761	25,129		1,260,000	2,472,890
Affiliates					0
Employees					0
Other	45,662	1,023			46,685
Current Portion of L/T Notes Rec.					0
Work in Process					0
Inventory	420,472	136,685			557,157
Prepaid Expenses	424,375	415,272			839,647
Deferred Costs, Contract Claims					0
Total Current Assets	2,125,499	579,537	0	1,260,000	3,965,036
Property and Equipment:					
Land and Buildings	703,456				703,456
Equipment and Vehicles	2,889,778	670,647			3,560,425
Leasehold Improvements	443,504	24,314			467,818
Total Property and Equip.	4,036,738	694,961	0	0	4,731,699
Less: Accumulated Depreciation	3,355,220	647,223			4,002,443
Net Property and Equipment	681,518	47,738	0	0	729,256
Other Assets:					
L/T Notes Rec., net of current	193,991				193,991
Notes Receivable, Shareholder	3,419,145			(129,087)	3,290,058
Security Deposits	24,000	11,942	1,000		36,942
Investment in Real Estate	90,000				90,000
Total Other Assets	3,727,136	11,942	1,000	(129,087)	3,610,991
Total Assets	6,534,153	639,217	1,000	1,130,913	8,305,283

Stambaugh's Air Service, Inc.  
 Separate and Combined Balance Sheet  
 As of December 31, 2001

	Stambaugh's Air Service Inc.	Stambaugh's Aviation Inc.	M.J.S. Equipment Corp.	Eliminations	Combined
Liabilities and Shareholders' Equity					
Current Liabilities:					
Notes Payable:					
Bank	1,359,109	497,757			1,856,866
Shareholder		110,384	18,703	(129,087)	0
Other					0
Current Portion of L.T.D.					0
Advances, Affiliates	(319,183)	547,051	(227,868)		0
A/P and Accrued Expenses	858,667	396,665			1,255,332
Taxes Payable	1,208,447	609,369			1,817,816
Total Current Liabilities	3,107,040	2,161,226	(209,165)	(129,087)	4,930,014
L.T.D., net of Current Sub-ordinated Debt	120,609	(25,947)	0	0	94,662
Shareholders' Equity:					
Common Stock	10,000	100	2,500		12,600
Capital in excess of Par	3,296				3,296
Retained Earnings	3,293,208	(1,496,162)	207,665	(1,260,000)	744,711
Total Shareholders' Equity	3,306,504	(1,496,062)	210,165		2,020,607
Total Liabilities and Shareholders' Equity	6,534,153	639,217	1,000	(129,087)	7,045,283



Stambaugh's Air Service, Inc.  
 Seperate and Combined Income Statement  
 For the Year Ended December 31, 2001

	Stambaugh's Air Service Inc.	Stambaugh's Aviation Inc.	M.J.S. Equipment Corp.	Eliminations	Combined
Sales	5,742,157	720,439		1,260,000	7,722,596
Cost of Sales	4,482,405	1,545,685	0	0	6,028,090
Gross Profit	1,259,752	(825,246)	0	1,260,000	1,694,506
General & Administrative Expenses	1,390,061	309,367	0	0	1,699,428
Income before Misc. Items	(130,309)	(1,134,613)	0	1,260,000	(4,922)
Misc. Items:					
Loan administration Costs	(4,842)				(4,842)
Gain on Sale of Fixed Asset	53,000				53,000
Rental Income					0
Net Income	(82,151)	(1,134,613)	0	1,260,000	43,236

Stambaugh's Air Service, Inc.  
 Separate and Combined Income Statement  
 For the Year Ended December 31, 2001

Cost of Sales	Stambaugh's Air Service Inc.	Stambaugh's Aviation Inc.	M.J.S. Equipment Corp.	Eliminations	Combined
Direct Materials	986,333	138,378			1,124,711
Direct Labor	1,928,349	485,977			2,414,326
Subcontract costs					0
Other Costs:					
Indirect Labor	134,186	330,414			464,600
Holiday and Vacation Pay	146,188	53,251			199,439
Payroll Taxes	202,092	75,674			277,766
Commissions	25,000				25,000
Depreciation	73,209	13,038			86,247
Employee Benefits	195,399	73,418			268,817
Employee Training	7,538	1,002			8,540
Freight	14,835	14,084			28,919
Insurance	182,781	13,843			196,624
Rent	281,821	214,667			496,488
Repairs and Maintenance	139,468	86,034			225,502
Security Expenses	21,624	104			21,728
Tools	7,707	9,241			16,948
Travel and Entertainment					0
Uniforms	24,393	1,485			25,878
Utilities	109,377	32,232			141,609
Vehicle Maint. & Expense	2,105	2,843			4,948
Total Cost of Sales	4,482,405	1,545,685	0	0	6,028,090

Stambaugh's Air Service, Inc.  
 Separate and Combined Income Statement  
 For the Year Ended December 31, 2001

General & Administrative	Stambaugh's Air Service Inc.	Stambaugh's Aviation Inc.	M.J.S. Equipment Corp.	Eliminations	Combined
Salaries, Office	684,137	51,540			735,677
Holiday and Vacation Pay	61,168				61,168
Payroll Taxes	53,838	3,803			57,641
Advertising	13,477	643			14,120
Depreciation	22,467	4,267			26,734
Dues And Subscriptions	7,470	2,734			10,204
Employee Benefits	3,310	4,401			7,711
Bad Debt Exp					0
Interest, net	-102,375	38,339			140,714
Office Expenses	22,626	12,011			34,637
Professional Fees	257,353	30,970			288,323
Rent		72,969			72,969
Taxes and Licenses	25,491	(22,806)			2,685
Telephone	37,907	18,605			56,512
Travel & Entertainment	98,442	91,891			190,333
Total Gen'l & Administrative Exp.	1,390,061	309,367	0	0	1,699,428

785,714

Stambaugh's Air Service, Inc.  
 Seperate and Combined Balance Sheet  
 As of December 31, 2002

Assets	Combined
	=====
Current Assets:	
Cash	133,318
Accounts Receivable:	0
Trade	1,047,663
Affiliates	0
Employees	41,944
Other	0
Current Portion of L/T Notes Rec.	0
Work in Process	493,207
Inventory	581,108
Prepaid Expenses	148,234
Deferred Costs, Contract Claims	0
	<hr/>
Total Current Assets	2,445,474
	<hr/>
Property and Equipment:	
Land and Buildings	703,456
Equipment and Vehicles	3,591,315
Leasehold Improvements	467,818
	<hr/>
Total Property and Equip.	4,762,589
Less: Accumulated Depreciation	4,085,556
	<hr/>
Net Property and Equipment	677,033
	<hr/>
Other Assets:	
L/T Notes Rec., net of current	193,991
Notes Receivable, Shareholder	3,461,540
Security Deposits	35,942
Investment in Real Estate	90,000
	<hr/>
Total Other Assets	3,781,473
	<hr/>
Total Assets	6,903,980
	<hr/>

Stambaugh's Air Service, Inc.  
 Seperate and Combined Balance Sheet  
 As of December 31, 2002

Liabilities and Shareholders' Equity	Combined
	=====
Current Liabilities:	
Notes Payable:	
Bank	1,862,247
Shareholder	130,118
Other	0
Current Portion of L.T.D.	0
Advances, Affiliates	0
A/P and Accrued Expenses	666,816
Taxes Payable	<u>1,104,541</u>
Total Current Liabilities	<u>3,763,722</u>
L.T.D., net of Current	56,921
Sub-ordinated Debt	0
Shareholders' Equity:	
Common Stock	12,600
Capital in excess of Par	3,296
Retained Earnings	<u>3,018,441</u>
Total Shareholders' Equity	<u>3,034,337</u>
Total Liabilities and	
Shareholders' Equity	<u><u>6,854,980</u></u>

Stambaugh's Air Service, Inc.  
 Seperate and Combined Income Statement  
 For the Year Ended December 31, 2002

	Combined
	=====
Sales	4,559,132
Cost of Sales	<u>3,405,527</u>
Gross Profit	1,153,605
General & Administrative Expenses	<u>1,284,347</u>
Income before Misc. Items	(130,742)
Misc. Items:	
Loan administration Costs	(849)
Loss from damage to cust. property	0
Rental Income	<u>14,600</u>
Net Income	<u><u>(116,991)</u></u>

Stambaugh's Air Service, Inc.  
 Seperate and Combined Income Statement  
 For the Year Ended December 31, 2002

Cost of Sales	Combined
	=====
Direct Materials	477,138
Direct Labor	1,451,138
Subcontract costs	0
Other Costs:	
Indirect Labor	203,526
Holiday and Vacation Pay	112,005
Payroll Taxes	135,810
Commissions	105,637
Depreciation	58,799
Employee Benefits	171,910
Employee Training	2,368
Freight	23,988
Insurance	244,700
Rent	244,976
Repairs and Maintenance	47,690
Security Expenses	570
Tools	14,246
Travel and Entertainment	0
Uniforms	15,588
Utilities	87,583
Vehicle Maint. & Expense	7,855
Total Cost of Sales	<u><u>3,405,527</u></u>

Stambaugh's Air Service, Inc.  
 Seperate and Combined Income Statement  
 For the Year Ended December 31, 2002

General & Administrative	Combined
	=====
Salaries, Office	587,469
Holiday and Vacation Pay	36,872
Payroll Taxes	51,498
Advertising	(136)
Depreciation	24,312
Dues And Subscriptions	11,006
Employee Benefits	4,699
Bad Debt Exp	7,271
Interest, net	111,518
Office Expenses	16,943
Professional Fees	112,615
Rent	81,944
Taxes and Licenses	88,205
Telephone	36,623
Travel & Entertainment	<u>113,508</u>
Total Gen'l & Administrative Exp.	<u><u>1,284,347</u></u>



**UNITED STATES BANKRUPTCY COURT  
MIDDLE DISTRICT OF PENNSYLVANIA**

In re: Stambaugh's Air Service, Inc.

Case No. 1-02-03207  
Reporting Period: December 1 thru December 31, 2002

**MONTHLY OPERATING REPORT**

File with Court and submit copy to United States Trustee within 20 days after end of month

Submit copy of report to any official committee appointed in the case

REQUIRED DOCUMENTS	Form No.	Document Attached	Explanation Attached
Schedule of Cash Receipts and Disbursements	MOR-1	X	
Bank Reconciliation (or copies of debtor's bank reconciliations)	MOR-1 (CONT)	X	
Copies of bank statements		X	
Cash disbursements journals			
Statement of Operations	MOR-2	X	
Balance Sheet	MOR-3	X	
Status of Postpetition Taxes	MOR-4	X	
Copies of IRS Form 6123 or payment receipt			
Copies of tax returns filed during reporting period			
Summary of Unpaid Postpetition Debts	MOR-4	X	
Listing of aged accounts payable			
Accounts Receivable Reconciliation and Aging	MOR-5	X	
Debtor Questionnaire	MOR-5	X	

I declare under penalty of perjury (28 U.S.C. Section 1746) that this report and the attached documents are true and correct to the best of my knowledge and belief.

Signature of Debtor

Date

Signature of Joint Debtor

Date

Signature of Authorized Individual\*

Date

1/17/03

Mark R. Stambaugh

Printed Name of Authorized Individual

President

Title of Authorized Individual

\*Authorized individual must be an officer, director or shareholder if debtor is a corporation; a partner if debtor is a partnership; a manager or member if debtor is a limited liability company.

FORM MOR  
(9/99)

STM04314

In re: Stambaugh's Air Service, Inc.  
Debtor

Case No. 1-02-03207  
Reporting Period: December 1 thru December 31, 2002

### SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Amounts reported should be per the debtor's books, not the bank statement. The beginning cash should be the ending cash from the prior month or, if this is the first report, the amount should be the balance on the date the petition was filed. The amounts reported in the "CURRENT MONTH - ACTUAL" column must equal the sum of the four bank account columns. The amounts reported in the "PROJECTED" columns should be taken from the SMALL BUSINESS INITIAL REPORT (FORM IR-1). Attach copies of the bank statements and the cash disbursements journal. The total disbursements listed in the disbursements journal must equal the total disbursements reported on this page. A bank reconciliation must be attached for each account. [See MOR-1 (CONT)]

BANK ACCOUNTS				CURRENT MONTH		CUMULATIVE YEAR-TO-DATE	
	AT&T	CHASE	WELLS FARGO	ACTUAL	PROJECTED	ACTUAL	PROJECTED
CASH BEGINNING OF MONTH	2,080.84	52,294.72	1,418.35	10,547.41	66,441.32	43,308.37	
RECEIPTS							
CASH SALES				0.00		409,308.44	
ACCOUNTS RECEIVABLE		396,212.22		396,212.22		2,142,814.52	
LOANS AND ADVANCES		600.00		600.00		1,550.00	
SALE OF ASSETS				0.00		0.00	
OTHER (ATTACH LIST)		1,316.26		1,316.26		42,116.22	
TRANSFERS (FROM DIP ACCTS)		8,383.43	193,039.00	201,422.43		1,427,771.43	
				0.00		0.00	
TOTAL RECEIPTS	0.00	406,511.91	0.00	599,556.91	0.00	4,023,560.61	0.00
DISBURSEMENTS							
NET PAYROLL		8,018.82	132,838.67	140,857.49		1,113,358.08	
PAYROLL TAXES		2,581.46	50,370.58	52,952.04		466,751.54	
SALES, USE, & OTHER TAXES		236.66		236.66		2,679.56	
INVENTORY PURCHASES		59,763.02		59,763.02		252,607.66	
SECURED/ RENTAL/ LEASES		47,007.15		47,007.15		239,224.48	
INSURANCE		12,800.93		12,800.93		264,785.20	
ADMINISTRATIVE		1,658.36		1,658.36		14,501.75	
SELLING		0.00		0.00		32,606.35	
OTHER (ATTACH LIST)		24,780.34		24,780.34		128,069.12	
OWNER DRAW *							
TRANSFERS (TO DIP ACCTS)	2,080.84	195,341.24	1,418.35	201,422.43		1,427,771.43	
PROFESSIONAL FEES							
U.S. TRUSTEE QUARTERLY FEES		5,500.00		5,500.00		5,500.00	
COURT COSTS							
TOTAL DISBURSEMENTS	2,080.84	357,687.98	1,418.35	546,978.42	0.00	3,947,855.17	0.00
NET CASH FLOW	(2,080.84)	48,823.93	(1,418.35)	52,572.49	0.00	75,705.44	0.00
(RECEIPTS LESS DISBURSEMENTS)							
CASH - END OF MONTH	0.00	101,118.65	0.00	119,013.81	0.00	119,013.81	0.00

\* COMPENSATION TO SOLE PROPRIETORS FOR SERVICES RENDERED TO BANKRUPTCY ESTATE

### THE FOLLOWING SECTION MUST BE COMPLETED

DISBURSEMENTS FOR CALCULATING U.S. TRUSTEE QUARTERLY FEES: (FROM CURRENT MONTH ACTUAL COLUMN)	
TOTAL DISBURSEMENTS	546,978.42
LESS: TRANSFERS TO DEBTOR IN POSSESSION ACCOUNTS	201,422.43
PLUS: ESTATE DISBURSEMENTS MADE BY OUTSIDE SOURCES (i.e. from escrow accounts)	
TOTAL DISBURSEMENTS FOR CALCULATING U.S. TRUSTEE QUARTERLY FEES	345,555.99

FORM MOR-1  
(9/99)

In re: Stambaugh's Air Service, Inc.  
Debtor

Case No. 1-02-03207  
Reporting Period: December 1 thru December 31, 2002

Other	
Repairs & Maintenance	2,127.14
Utilities	17,200.35
Travel Expense	4,146.76
Janatorial	75.47
Security	
Uniform Expense	1,230.62
	<u>24,780.34</u>

In re: Stambaugh's Air Service, Inc.  
Debtor

Case No. 1-02-03207  
Reporting Period: December 1 thru December 31, 2002

# **BANK RECONCILIATIONS**

Continuation Sheet for MOR-1

A bank reconciliation must be included for each bank account. The debtor's bank reconciliation may be substituted for this page.

	Operating #51 323345 2	Payroll #53 600027 6	Payroll #51 340364 2	Operating #53 600026 8
<b>BALANCE PER BOOKS</b>		17,895.16		101,118.65
<b>BANK BALANCE</b>	0.00	25,416.86	0.00	108,513.28
(+) DEPOSITS IN TRANSIT (ATTACH LIST)				
(-) OUTSTANDING CHECKS (ATTACH LIST)		7,521.70		7,394.63
OTHER (Bank error, cor 11/02)				
<b>ADJUSTED BANK BALANCE *</b>	0.00	17,895.16	0.00	101,118.65
* Adjusted bank balance must equal balance per books				
<b>DEPOSITS IN TRANSIT</b>	Date Amount	Date Amount	Date Amount	Date Amount
<b>CHECKS OUTSTANDING</b>	Ck. # Amount	Ch. # Amount	Ck. # Amount	Ck. # Amount
		1669 262 96		1206 80 00
		1716 835 23		10835 508 96
		1763 719 96		10835 10 84
		1767 808 65		10838 228 00
		1785 434 55		10841 140 79
		1788 278 17		1236 954 00
		1807 4 105 76		1237 36 00
		1809 76 42		1240 24 00
				1245 1 360 00
				1246 231 79
				1247 127 43
				10861 175 00
				10862 240 00
				10863 2 204 10
				10864 482 10
				10865 127 25
				10866 10 84
				10867 353 38
				10868 100.15

OTHER

FORM MOR-1 (CONT)  
(9/99)

STM04317

In re: Stambaugh's Air Service, Inc  
Debtor

Case No 1-02-03207  
Reporting Period: December 1 thru December 31, 2002

**STATEMENT OF OPERATIONS**  
(Income Statement)

The Statement of Operations is to be prepared on an accrual basis. The accrual basis of accounting recognizes revenue when it is realized and expenses when they are incurred, regardless of when cash is actually received or paid.

REVENUES	Month	Year
Gross Revenues	\$392,901.00	2,939,582
Less: Returns and Allowances		
Net Revenue	\$392,901	\$2,939,582
<b>COST OF GOODS SOLD</b>		
Beginning Inventory	455,134	456,807
Add: Purchases	4,463	168,975
Add: Cost of Labor	143,105	1,152,511
Add: Other Costs (attach schedule)		
Less: Ending Inventory	453,413	453,413
Cost of Goods Sold	\$149,289	\$1,324,880
Gross Profit	\$243,612	\$1,614,702
<b>OPERATING EXPENSES</b>		
Advertising		469
Auto and Truck Expense		514
Bad Debts		
Contributions		
Employee Benefits Programs	9,121	71,994
Insider Compensation*		
Insurance	28,424	159,703
Management Fees/Bonuses		
Office Expense	925	6,870
Pension & Profit-Sharing Plans		
Repairs and Maintenance	8,265	36,126
Rent and Lease Expense		134,172
Salaries/Commissions/Fees	62,436	452,414
Supplies	2,595	13,147
Taxes - Payroll	13,872	107,623
Taxes - Real Estate		11,247
Taxes - Other	36	4,674
Travel and Entertainment	2,456	41,169
Utilities	9,783	54,995
Other (attach schedule)	500	6,348
Total Operating Expenses Before Depreciation	\$138,413	\$1,101,465
Depreciation/Depletion/Amortization	6,724	41,896
Net Profit (Loss) Before Other Income & Expenses	\$98,475	\$471,341
<b>OTHER INCOME AND EXPENSES</b>		
Other Income (attach schedule)		
Interest Expense	6,213	49,665
Other Expense (attach schedule)		
Net Profit (Loss) Before Reorganization Items	\$92,262	\$421,676
<b>REORGANIZATION ITEMS</b>		
Professional Fees		
U. S. Trustee Quarterly Fees	5,000	1,750
Interest Earned on Accumulated Cash from Chapter 11 (see continuation sheet)		
Gain (Loss) from Sale of Equipment		
Other Reorganization Expenses (attach schedule)		
Total Reorganization Expenses	\$5,000	\$1,750
Income Taxes		
Net Profit (Loss)	\$87,262	\$419,926

\*"Insider" is defined in 11 U.S.C. Section 101(31)

FORM MOR-2

(9/99)

STM04318



In re: Stambaugh's Air Service, Inc.  
Debtor

Case No. 1-02-03207  
Reporting Period: December 1 thru December 31, 2002

### STATEMENT OF OPERATIONS - continuation sheet

BREAKDOWN OR OTHER CATEGORY	Month	Cumulative YTD to Date
<b>Other Costs</b>		
<b>Other Operational Expenses</b>		
<b>Other Income</b>		
<b>Other Expenses</b>		
Employee Training	120	2,294
Dues and Subscriptions		2,825
Security (Airport Badges)	380	570
Uniforms		659
<b>Other Reorganization Expenses</b>		

**Reorganization Items - Interest Earned on Accumulated Cash from Chapter 11:**

Interest earned on cash accumulated during the chapter 11 case, which would not have been earned but for the bankruptcy proceeding, should be reported as a reorganization item

FORM MOR-2 (CON'T)  
(9/99)

In re: Stambaugh's Air Service, Inc.  
Debtor

Case No. 1-02-03207  
Reporting Period: December 1 thru December 31, 2002

### BALANCE SHEET

The Balance Sheet is to be completed on an accrual basis only. Pre-petition liabilities must be classified separately from postpetition obligations.

ASSETS	BOOK VALUE/AT RISK CURRENT REPORTING PERIOD	BOOK VALUE/AT RISK PRE-PETITION PERIOD
<b>CURRENT ASSETS</b>		
Unrestricted Cash and Equivalents	119,614	43,308
Restricted Cash and Cash Equivalents (see continuation sheet)		
Accounts Receivable (Net)	1,040,392	1,059,340
Notes Receivable		
Inventories	455,134	456,807
Prepaid Expenses		
Professional Retainers		
Other Current Assets (attach schedule)	1,272,248	846,334
<b>TOTAL CURRENT ASSETS</b>	<b>\$2,887,388</b>	<b>\$2,405,789</b>
<b>PROPERTY AND EQUIPMENT</b>		
Real Property and Improvements	768,456	768,456
Machinery and Equipment	1,819,235	1,816,780
Furniture, Fixtures and Office Equipment	284,815	283,755
Leasehold Improvements	443,504	443,504
Vehicles	521,787	521,787
Less Accumulated Depreciation	(3,133,971)	(3,092,073)
<b>TOTAL PROPERTY &amp; EQUIPMENT</b>	<b>\$703,826</b>	<b>\$742,209</b>
<b>OTHER ASSETS</b>		
Loans to Insiders*		
Other Assets (attach schedule)	3,720,526	3,777,211
<b>TOTAL OTHER ASSETS</b>	<b>\$3,720,526</b>	<b>\$3,777,211</b>
<b>TOTAL ASSETS</b>	<b>\$7,311,740</b>	<b>\$6,925,209</b>

LIABILITIES AND OWNERS' EQUITY	BOOK VALUE/AT RISK CURRENT REPORTING PERIOD	BOOK VALUE/AT RISK PRE-PETITION PERIOD
<b>LIABILITIES NOT SUBJECT TO COMPROMISE (Postpetition)</b>		
Accounts Payable	56,448	
Taxes Payable (refer to FORM MOR-4)	23,938	
Wages Payable (Paid 1/2/03)	73,456	41,020
Notes Payable		
Rent / Leases - Building/Equipment		
Secured Debt / Adequate Protection Payments		
Professional Fees		
Amounts Due to Insiders*		
Other Postpetition Liabilities (attach schedule)	6,254	
<b>TOTAL POSTPETITION LIABILITIES</b>	<b>\$160,096</b>	<b>\$41,020</b>
<b>LIABILITIES SUBJECT TO COMPROMISE (Pre-Petition)</b>		
Secured Debt	1,617,180	1,633,050
Priority Debt	887,135	947,099
Unsecured Debt	1,026,297	1,097,934
<b>TOTAL PRE-PETITION LIABILITIES</b>	<b>\$3,530,612</b>	<b>\$3,678,083</b>
<b>TOTAL LIABILITIES</b>	<b>\$3,690,708</b>	<b>\$3,719,103</b>
<b>OWNER EQUITY</b>		
Capital Stock	10,000	10,000
Additional Paid-In Capital	3,296	3,296
Partners' Capital Account		
Owner's Equity Account		
Retained Earnings - Pre-Petition	3,192,810	3,192,810
Retained Earnings - Postpetition	414,926	
Adjustments to Owner Equity (attach schedule)		
Postpetition Contributions (Distributions) (Draws) (attach schedule)		
<b>NET OWNER EQUITY</b>	<b>\$3,621,032</b>	<b>\$3,206,106</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>\$7,311,740</b>	<b>\$6,925,209</b>

\* "Insider" is defined in 11 U.S.C. Section 101(31).

FORM MOR-3  
(9/99)

STM04320

In re: Stambaugh's Air Service, Inc  
Debtor

Case No. 1-02-03207  
Reporting Period: December 1 thru December 31, 2002

## BALANCE SHEET - continuation sheet

ASSETS	BOOK VALUE AT END OF CURRENT REPORTING PERIOD	BOOK VALUE ON PREVIOUS DATE
Other Current Assets		
Prepaid Expenses	78,018	119,813
Security Bond	149,976	149,976
Due from Affiliated companies	634,047	576,545
Work-in-progress	410,207	
	1,272,248	
Other Assets		
N/R - Shareholder	3,461,543	3,514,078
Security Deposits	24,000	26,000
N/R - Other	234,983	237,133
	3,720,526	
<b>LIABILITIES AND OWNERS' EQUITY</b>	<b>BOOK VALUE AT END OF CURRENT REPORTING PERIOD</b>	<b>BOOK VALUE ON PREVIOUS DATE</b>
Other Liabilities		
Accrued Interest Payable to Bank	6,254	
Adjustments to Owner's Equity		
Proprietor's Contributions (Distributions) (Draws)		

Restricted Cash: cash that is restricted for a specific use and not available to fund operations. Typically, restricted cash is segregated into a separate account, such as an escrow account

FORM MOR-3 (CONT)  
(9/99)

STM04321



In re: Stambaugh's Air Service, Inc.  
Debtor

Case No. 1-02-03207  
Reporting Period: December 1 thru December 31, 2002

### STATUS OF POSTPETITION TAXES

The beginning tax liability should be the ending liability from the prior month or, if this is the first report, the amount should be zero.  
Attach photocopies of IRS Form 6123 or payment receipt to verify payment or deposit of federal payroll taxes.  
Attach photocopies of any tax returns filed during the reporting period.

Category	Beginning Liability	Payments	Ending Liability	Period	Method	Ending Liability
Withholding	0.00	20,150.68	20,150.68	12/11 & 12/24	EFT	0.00
FICA-Employee	0.00	13,413.11	13,413.11	12/11 & 12/24	EFT	0.00
FICA-Employer	0.00	13,413.11	13,413.11	12/11 & 12/24	EFT	0.00
Unemployment (Paid quarterly)	531.67	149.23				680.90
Income						0.00
Other:						0.00
Total Federal Taxes	\$531.67	\$47,126.13	\$46,976.90			\$680.90
State and Local Taxes						
Withholding	0.00	5,057.69	2,581.46	12/20	Ch.#10856	2,476.23
Sales	200.66		200.66	12/20	Ch.#10857	0.00
Excise						0.00
Unemployment (Paid quarterly)	1,130.29	310.88				1,440.37
Real Property	10,390.18					10,390.18
Personal Property						0.00
Other/Local Tax W/H (Paid quarterly)	6,539.53	2,410.88				8,950.41
Total State and Local	\$18,260.66	\$7,778.65	\$2,782.12			\$23,257.19
Total Taxes	\$18,792.33	\$54,904.78	\$49,759.02			\$23,938.09

### SUMMARY OF UNPAID POSTPETITION DEBTS

Attach aged listing of accounts payable

Category	Amount	Amount	Amount	Amount	Amount	Amount
Accounts Payable	56,448					56,448
Wages Payable (Paid 1/2/03)	73,456					73,456
Taxes Payable	23,938					23,938
Rent/Leases-Building						0
Rent/Leases-Equipment						0
Secured Debt/Adequate Protection Payments						0
Professional Fees						0
Amounts Due to Insiders*						6,254
Other Interest Payable to Bank	6,254					0
Other:						0
Total Postpetition Debts	160,096	0.00	0.00	0.00	0.00	160,096

Explain how and when the Debtor intends to pay any past-due postpetition debts.

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\*"Insider" is defined in 11 U.S.C. Section 101(31).

FORM MOR-4  
(9/99)

In re: Stambaugh's Air Service, Inc  
Debtor

Case No 1-02-03207  
Reporting Period: December 1 thru December 31, 2002

### ACCOUNTS RECEIVABLE RECONCILIATION AND AGING

Accounts Receivable Reconciliation	Amount
Total Accounts Receivable at the beginning of the reporting period	1,546,453
+ Amounts billed during the period	396,212
- Amounts collected during the period	396,212
Total Accounts Receivable at the end of the reporting period	1,546,453

Accounts Receivable Aging	Amount
0 - 30 days old	
31 - 60 days old	
61 - 90 days old	
91+ days old	1,546,453
Total Accounts Receivable	1,546,453
Amount considered uncollectible (Bad Debt)	506,061
Accounts Receivable (Net)	1,040,392

### DEBTOR QUESTIONNAIRE

Must be completed by debtor	Yes	No
1 Have any assets been sold or transferred outside the normal course of business this reporting period? If yes, provide an explanation below.		X
2 Have any funds been disbursed from any account other than a debtor in possession account this reporting period? If yes, provide an explanation below.		X
3 Have all postpetition tax returns been timely filed? If no, provide an explanation below.	X	
4 Are workers compensation, general liability and other necessary insurance coverages in effect? If no, provide an explanation below.	X	

FORM MOR-5  
(9/99)

UNITED STATES BANKRUPTCY COURT  
MIDDLE DISTRICT OF PENNSYLVANIA

In re: Stambaugh Aviation, Inc.

Case No. 1-02-03208

Reporting Period: December 1 thru December 31, 2002

**MONTHLY OPERATING REPORT**

File with Court and submit copy to United States Trustee within 20 days after end of month

Submit copy of report to any official committee appointed in the case

REQUIRED DOCUMENTS	Form No.	Document Attached	Explanation Attached
Schedule of Cash Receipts and Disbursements	MOR-1	X	
Bank Reconciliation (or copies of debtor's bank reconciliations)	MOR-1 (CON'T)	X	
Copies of bank statements			
Cash disbursements journals			
Statement of Operations	MOR-2	X	
Balance Sheet	MOR-3	X	
Status of Postpetition Taxes	MOR-4	X	
Copies of IRS Form 6123 or payment receipt			
Copies of tax returns filed during reporting period			
Summary of Unpaid Postpetition Debts	MOR-4	X	
Listing of aged accounts payable			
Accounts Receivable Reconciliation and Aging	MOR-5	X	
Debtor Questionnaire	MOR-5	X	

I declare under penalty of perjury (28 U.S.C. Section 1746) that this report and the attached documents are true and correct to the best of my knowledge and belief.

Signature of Debtor

Date

Signature of Joint Debtor

Date

Signature of Authorized Individual\*

Date

1/17/03

Mark R. Stambaugh

President

Printed Name of Authorized Individual

Title of Authorized Individual

\* Authorized individual must be an officer, director or shareholder if debtor is a corporation; a partner if debtor is a partnership; a manager or member if debtor is a limited liability company.

FORM MOR  
(9/99)

STM04324

In re: Stambaugh Aviation, Inc.  
Debtor

Case No. 1-01-03208  
Reporting Period: December 1 thru December 31, 2002

### SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Amounts reported should be per the debtor's books, not the bank statement. The beginning cash should be the ending cash from the prior month or, if this is the first report, the amount should be the balance on the date the petition was filed. The amounts reported in the "CURRENT MONTH - ACTUAL" column must equal the sum of the four bank account columns. The amounts reported in the "PROJECTED" columns should be taken from the SMALL BUSINESS INITIAL REPORT (FORM IR-1). Attach copies of the bank statements and the cash disbursements journal. The total disbursements listed in the disbursements journal must equal the total disbursements reported on this page. A bank reconciliation must be attached for each account. [See MOR-1 (CONT)]

	BANK ACCOUNTS				CURRENT MONTH		CUMULATIVE PERIOD	
	ATLANTA	ATLANTA	ATLANTA	ATLANTA	ACTUAL	PROJECTED	ACTUAL	PROJECTED
CASH BEGINNING OF MONTH	0.00	117.13		10,961.54	11,078.67		6,765.62	
RECEIPTS					0.00		0.00	
CASH SALES				41,350.00	41,350.00		126,500.00	
ACCOUNTS RECEIVABLE					0.00		0.00	
LOANS AND ADVANCES					0.00		0.00	
SALE OF ASSETS					0.00		2,749.16	
OTHER (ATTACH LIST)					12,882.44		32,851.67	
TRANSFERS (FROM DIP ACCTS)	12,882.44						0.00	
TOTAL RECEIPTS	0.00	12,882.44	0.00	41,350.00	54,232.44	0.00	162,200.83	0.00
DISBURSEMENTS					13,980.25		20,181.71	
NET PAYROLL		12,682.44		1,097.81	0.00		9,016.54	
PAYROLL TAXES					0.00		342.10	
SALES, USE, & OTHER TAXES				3,724.29	3,724.29		9,090.41	
INVENTORY PURCHASES				14,435.59	14,435.59		59,803.79	
SECURED/ RENTAL/ LEASES					0.00		0.00	
INSURANCE		26.00		525.68	551.68		3,280.54	
ADMINISTRATIVE				2,769.24	2,769.24		3,463.74	
SELLING				3,352.07	3,352.07		17,320.60	
OTHER (ATTACH LIST)					0.00		0.00	
OWNER DRAW *				12,882.44	12,882.44		32,251.47	
TRANSFERS (TO DIP ACCTS)					0.00		0.00	
PROFESSIONAL FEES					0.00		0.00	
U.S. TRUSTEE QUARTERLY FEES					0.00		0.00	
COURT COSTS					51,695.56	0.00	155,350.90	0.00
TOTAL DISBURSEMENTS	0.00	12,908.44	0.00	38,787.12	2,536.88	0.00	6,849.93	0.00
NET CASH FLOW	0.00	(26.00)	0.00	2,562.88				
RECEIPTS LESS DISBURSEMENTS					13,615.56	0.00	13,615.55	0.00
CASH - END OF MONTH	0.00	91.13	0.00	13,524.42				

\* COMPENSATION TO SOLE PROPRIETORS FOR SERVICES RENDERED TO BANKRUPTCY ESTATE

### THE FOLLOWING SECTION MUST BE COMPLETED

DISBURSEMENTS FOR CALCULATING U.S. TRUSTEE QUARTERLY FEES FROM CURRENT MONTH ACTUAL COLUMN	51,695.56
TOTAL DISBURSEMENTS	12,882.44
LESS: TRANSFERS TO DEBTOR IN POSSESSION ACCOUNTS	0.00
PLUS: ESTATE DISBURSEMENTS MADE BY OUTSIDE SOURCES (i.e. from escrow accounts)	38,813.12
TOTAL DISBURSEMENTS FOR CALCULATING U.S. TRUSTEE QUARTERLY FEES	

FORM MOR-1  
(9/99)

In re: Stambaugh Aviation, Inc.  
Debtor

Case No. 1-02-03208  
Reporting Period: \_December 1 thru December 31, 2002

Utilities	2,314.47
Repairs & Maintenance	144.77
Travel	800.00
Lab (FAA drug testing)	31.00
Uniforms	<u>61.83</u>
Total	<u><u>3,352.07</u></u>